SIERRA VISTA THE HERALD

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Martin: State sound, Fed freaky

SIERRA VISTA — During this week's financial turmoil, State Treasurer Dean Martin was asked by the Herald/Review how things are going with the state's $12 billion worth of investments.

Martin said the Arizona Board of Investments, which oversees those funds, had begun moving money out of mortgage and financial markets more than a year ago, after the national credit crunch began to hit.

By Monday, "we only had three bonds left that were in Lehman," Martin said Wednesday during a telephone interview from his office in Phoenix.

He was referring to Lehman Brothers, which filed the largest bankruptcy in U.S. history after the federal government refused to bail out the global investment banker.

The Arizona Treasury's potential loss with Lehman represents 0.3 percent — or $39.4 million — of its entire portfolio of $12 billion, Martin said.

Martin pointed out that Lehman is not liquidating its assets but instead is in Chapter 11, reorganizing its debts. Arizona must wait for the legal system to work out how Lehman is going to pay its bills, and Arizona is a senior creditor, so it would be one of the first creditors to get paid back.

Putting the $39 million into perspective, Martin pointed out that Arizona earned more than half a billion dollars in distributed earnings in 2007.

Martin expressed bewilderment at the federal government's topsy-turvy behavior since March.

The Federal Reserve — the central bank of the United States — decided not to bail out Lehman.

This decision was opposite of the Fed's decision in March, when it provided an emergency loan to Bear Stearns, another huge global investment bank.

After its rejection of Lehman, the government flipped again with Tuesday's $85 billion bailout of American International Group (AIG), the world's largest insurance company.

"The administration has really, in my opinion, they've really messed things up," Martin said.

He agreed with the Bear Stearns decision. "That calmed the markets. That was the right move at the time."

But then, he said, the Fed pulled the rug out from under Lehman on Monday. And then it decided to buy an insurance company on Tuesday.

The Fed, Martin said, is supposed to be a lender to banks, but "I don't remember anything in their charter for insurance companies."

"This is a schizophrenic behavior that's causing a lot of turmoil on the markets," Martin said. "That's why you're seeing the stock market down 500 points on Monday, up on Tuesday, down again today on Wednesday. It's creating chaos in the marketplace, and that's exactly the thing they're supposed to be preventing and not creating."

Chiding at a only-half-joking comment that the taxpayer has become the lender of last resort, Martin asked, "What's the federal government doing, picking winners and losers?"

Martin said the Federal Reserve's actions are taking the U.S. "back to where we were when the credit crunch started."

"They can't make a decision as to which way they're going to go," he said. "Uncertainty is what destroys markets. The government sets the rules of the game. And people make investment decisions based on what those rules are supposed to be. When you go and change that without warning, it completely throws the market into chaos, and that's essentially what they did over the last couple of days."

When the Fed flip-flops, "It just totally makes the market say, 'Well, what do I trust? What's good? Are they going to change the rules on me tomorrow?' " he said.

"It's like playing a game that moves the goal posts back and forth," Martin added. "For one team, the goal posts are the 50-yard line, and for the other team, the goal posts are 200 yards away. That's not fair. That's not what the federal government should be doing."

Should there be more regulation?

Probably so, Martin said, but more to the point, he feels, there must be more transparency.

"In a lot of ways the federal government created this mess when they let these companies get so leveraged without reporting or disclosing it," he said. "This was a lack of transparency that caused this."

"The one regulation that's needed is putting limits on leverage, with disclosure," he said, noting Lehman was A-rated on the Friday before it filed for bankruptcy.

When the government buys companies, Martin said, "That's not regulation. In some ways, that's somewhere between socialism and fascism, when the government starts running and owning companies."

Martin said Arizona did the right thing by moving funds out of Lehman and keeping a diversified portfolio.

"We didn't want to have very much money in any one thing, just in case somebody did something stupid," he said. "I just didn't think it would be the Fed doing the stupid thing and causing this."

By Ted Morris
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